UNITED NATIONS
CENTRE ON TRANSNATIONAL CORPORATIONS

Activities of UNCTC in Central and Eastern Europe:

Strengthening the capacity for effective assimilation of foreign direct investment

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Profound changes are taking place in Central and Eastern Europe. A broad movement towards a more pluralistic organization of society is gathering strength, and the economic systems of these countries are being transformed from centrally planned to market economies. The successful promotion of this process involves, among other things, substantial economic modernization and further integration into the world economy.

Foreign direct investment through transnational corporations, as an agent and motor of economic change, is meant to play an important role in this transformation process. Yet to date, the potential of this role has barely been tapped: most of the countries of Central and Eastern Europe have only recently begun to permit and encourage large-scale foreign direct investment, and operating conditions have typically been very restrictive. This is changing, however, as exemplified by the adoption of more flexible joint venture laws in most countries of the region, and the establishment of special economic zones in the USSR, Poland, Hungary and Bulgaria.

The declared objectives of the new policies is precisely to utilize foreign direct investment to provide needed capital, technology, know-how and management skills; market access; and further integration into the world economy.

However, economic decision-makers at all levels in the socialist countries have little experience, if any, in dealing with transnational corporations. This lack of experience stretches from an unfamiliarity with the basic mechanisms of the market system, to the use of appropriate accounting standards in joint ventures, to the mutually advantageous negotiation of such ventures. Due to this, many of these countries are not yet in a position to implement fully and effectively their joint venture laws.

They need assistance. And for this, they have turned to the United Nations Centre on Transnational Corporations (UNCTC) for a number of reasons:

- In the United Nations system, the Centre is the *focal point* for all matters related to foreign direct investment. In this function, it has undertaken in-depth research in the whole range of issues involving transnational corporations. More importantly, the Centre has responded to numerous and diverse requests for technical assistance on all aspects of foreign direct investment, including:

  * assistance in drafting national investment legislation;

  * seminars and workshops on foreign direct investment issues;

  * preparation of manuals relating to negotiating and operating business arrangements with foreign equity participation;

  * assistance to institutions of higher learning;

* organization of high-level round tables on foreign investment issues, including joint ventures; and

* advisory assistance, including participation in *ad hoc* task forces.

To date, over 100 countries have benefitted from the Centre's technical co-operation.

- The Centre has *experience* in working with socialist countries. The Centre's activities have included facilitating joint ventures, drafting national joint venture legislation, developing accounting standards for joint ventures, and helping set up free economic zones. They are aimed at strengthening the capacity of each of these countries to assimilate effectively foreign direct investment.

- The Centre is recognized by socialist countries as a *competent* organization with a strong record in technical co-operation and in supporting research useful to them. Countries like the USSR and Poland have maintained a continuous relationship with the Centre.

- As a *neutral international organization,* the Centre is in a better position than national organizations to provide advice and assistance in areas which are still very sensitive in many socialist countries.

- The Centre is playing an *intermediary role* between socialist countries seeking foreign direct investment and transnational corporations interested in undertaking it.

- With its experience and standing, the Centre can *respond to any request within a very short time* of receiving enabling funds.

- Being a non-profit organization, the Centre can provide its *services at cost.* In fact, the Centre makes every effort to disseminate its technical assistance materials widely, to obtain the broadest impact possible.

- The Centre's experience, record and neutrality make it a trusted partner to provide technical assistance to Central and Eastern Europe.

But the ability of the Centre to assist the countries of the region is constrained by the availability of resources. This is why the Centre has established a *special trust fund,* the size of which determines the scope and extent of assistance that the Centre can provide. Contributions to this trust fund can be made by any government, business organization, individual enterprise and foundation. Its principal component has to consist of convertible currency, to be supplemented by currencies from recipient countries. These must be resources in addition to those available from the regular budget of the Centre and the extrabudgetary resources made available to the Centre for technical co-operation work in developing countries. In all cases, the host country assumes all local costs.

Central and Eastern Europe should not be left alone in their efforts at reform. Their success has far-reaching political-economy implications. It is an opportunity to seize.

What the Centre is doing in Central and Eastern Europe

Our major activities to date fall into the following groups:

I. Facilitating joint ventures and foreign direct investment

USSR:

High-Level Seminar on Joint Ventures as a Form of International Eonomic Co-operation, Moscow, 13 March 1988, attended by over 100 high-level officials and decision-makers. The seminar pin-pointed key issues regarding foreign direct investment and the supervision of joint venture negotiations. The results included a United Nations sales publication on *Joint Ventures as a Form of International Economic Co-operation* (UN Publication, Sales No. E.88.II.A.12) which contained, for the first time, a complete set of the relevant USSR laws and regulations. The volume was also published by Francis and Taylor. A second edition is under preparation.

As a follow up to this Seminar, the Centre organized on 25 April 1988 a meeting for Ivan Ivanov, Deputy Chairperson of the USSR State Foreign Economic Commission with a large group of senior corporate officials. The meeting, organized with the support of the U.S. Council for International Business and the International Business Council of Canada, briefed the business leaders on the way joint ventures in the USSR were developing, surveyed the existing body of the relevant legislation and spoke on the difficulties that are faced by the Soviet authorities in this area.

USSR:

Workshop on Negotiating Joint Venture Agreements, Moscow, 19-23 March 1990. For more than 500 managers, economic officials, government regulators and scholars. Participants were familiarized with international practices in negotiating joint venture agreements, including ancillary agreements, and the strategy and tactics in conducting such negotiations. The workshop was highly publicized in the press and television. The background materials and a negotiations manual will be published. Scheduled for finalization in 1990 is a sales publication entitled *Opening Economies through Joint Ventures: A Comparative Survey of Laws and Regulations on Joint Ventures in Central and Eastern Europe and the Socialist Developing Countries* (annexes contain all relevant regulatory texts).

Yugoslavia: *High-Level Round Table on Stock Exchange*, Zagreb, 6-8 February 1990. To discuss problems in setting up an exchange and in financing highways through private investment. Over 100 participants attended. Since then, three functioning Yugoslav exchanges have requested the Centre to organize training for their employees in practical aspects of operation.

Poland: *Information System on Foreign Direct Investment.* The Centre has assisted the Government of Poland in installing a data base on the largest industrial foreign firms having invested in Poland or having non-equity links with Polish enterprises, with a view to facilitating future contracts of the Government with interested and potential foreign investors.

Romania: *Foreign Investment Assimilation.* In 1990 the Government of Romania requested UNCTC to assist its newly created Agency for the Promotion of Foreign Investments and Economic Assistance (ARPIS) and the Romanian Agency for Privatization to organize a workshop on foreign investment, transfer of technology, negotiating with foreign investors and privatization. The workshop will take place in Bucharest in May 1991 and will be attended by 100 participants from state-owned enterprises, the private sector and officials from different banks, ministries and agencies responsible for dealing with foreign investors.

The Centre has already provided ARPIS with information and documentation which has proved useful in the drafting of the country's foreign investment and privatization legislation.

II. Joint venture legislation

Poland: *Joint Venture Law.* In 1982, on the request of the Government of Poland, the Centre sent three experts to Poland to help the Government formulate its joint venture law. The law, adopted in 1986, bears the Centre's imprint.

Yugoslavia: *Joint Venture Law.* Similarly, in 1983 and 1984, on the request of the Government of Yugoslavia, the Centre sent three experts to review the draft for the 1984 foreign investment law.

Czechoslovakia: *Foreign Investment Law.* In early 1990, Czechoslovakia's Ministry of Foreign Trade requested the Centre to review the draft amendments to the existing foreign investment law.

Albania:

Assisting Contract Negotiations. Albania has five prospective offshore petroleum blocks which have attracted the interest of a number of exploration companies. The Centre is giving advice on the terms of the agreements being entered into by the Albanian Government and the awarding of petroleum exploration rights to foreign companies. With UNDP financial support, UNCTC will also provide assistance to Albania in developing the legislation necessary to govern foreign investment, including company, contract, income tax, property and foreign investment laws.

III. Accounting

USSR:

Seminar on Accounting for and by East-West Joint Ventures in Centrally Planned Economies, Moscow, 13-15 June 1989. Bringing together over 150 people from Government, local firms, TNCs and academia, the seminar was intended to promote the understanding of joint venture accounting practices in the USSR and elsewhere; to explore ways to improve comparability; and to identify areas for accounting training. It was the first public discussion of problems in accounting for East-West joint-ventures and led to revisions in the USSR accounting regulations by 6 June 1990.

The seminar papers have been published in English under the title *Accounting for and by East-West Joint Ventures in Centrally Planned Economies* by Lafferty Publications, Georgia, USA. A Russian version is in preparation.

The seminar created an international Task Force co-chaired by UNCTC and the USSR Ministry of Finance to assist the Government of the USSR in the further improvement of existing accounting regulations (see below). Further, it led to the elaboration of three curricula for education and training in international accounting standards, with particular focus on joint ventures (see below). These are part of an integrated programme described in the annex.

USSR:

Workshop on the Finalization of Accounting Curricula, Moscow, 22-23 September 1989. The workshop was convened to finalize the curricula and tie up organizational arrangements for a three-pronged national programme of accounting training set in motion by the June *Accounting for East-West Joint Ventures* seminar.

Three curricula were prepared, each oriented to a specific audience:

- *Workshops in joint venture accounting for joint venture personnel, accountants, regulators.* The purpose of these workshops is to bring practitioners in joint ventures (and prospective joint ventures), state enterprises and government up to date in the requirements of accounting/auditing for joint venture operations, for present and future purposes.

- Academic programme for final-year accounting students. Covering sixty hours of class, the purpose of this programme is to educate final year university level accounting students in international accounting.

- *Education: Instructors in institutions of higher learning:* The programme is meant to retrain accounting faculty both in Eastern Europe and the USSR in the concepts, standards, procedures and practices of international accounting, especially for joint ventures.

The curricula were published, in English and Russian, as *Curricula for Accounting Education for East-West Joint Ventures in Centrally Planned Economies,* UNCTC Advisory Studies, No. 6 (Series B) (UN Publication, Sales No. E.90.II.A.2). They are being made available to major accounting departments of institutions of high learning in Eastern Europe and the USSR.

Courses on the basis of the first curricula in autumn 1989. The participating universities were the Moscow Plekhanov Institute, Moscow State University, Leningrad Engels State Trade Institute, Moscow Finance Institute, Moscow State Institute of International Relations and Kiev University. Ernst and Young, Deloitte Touche, Coopers and Lybrand, Price Waterhouse, KPMG (Peat Marwick) and Arthur Andersen and Co. provided instructors *pro bono*. In addition, key international accounting and economics textbooks are being translated into Russian by participating universities.

USSR:

The Task Force on Improvements in Accounting for Joint Ventures is a direct result of the earlier Moscow workshop "Accounting for East-West Joint Ventures in Centrally Planned Economies". The Task Force provides international expertise to Soviet authorities on matters concerning accounting standards for joint ventures.

Its terms of reference are:

- To identify accounting problems encountered by joint venture partners, to advise on the development of an appropriate conceptual framework and to draft standards for accounting and financial reporting by joint ventures in the Soviet Union.

- To study ways and means to adapt the traditional accounting systems of centrally planned economies to new, restructured conditions.

- To advise on standards of accounting for free economic zones in the USSR, drawing on concepts in joint venture accounting.

- To deal with training, education, and other matters related to the development of accountancy in the USSR.

The Task Force had its first meeting in Moscow on 12-14 June 1990. The Task Force was asked by the Soviet Government to overhaul completely the USSR Chart of Accounts to facilitate the country's transition to a market economy. In September 1990, an *ad hoc* meeting of the Task Force met to discuss the first draft of the revised Chart of Accounts. In November 1990, a member of the Task Force will meet with USSR members of the Task Force to offer further advise on the Chart of Accounts. The Task Force has also been requested to prepare a plan for the development of the accounting profession in the USSR. The background paper prepared for the first meeting of the Task Force, *Direction for Change: Joint Venture Accounting in the USSR* has been published as UNCTC Advisory Studies Series B No. 7 (New York, United Nations, 1990), 46p., $11.00. United Nations publication, Sales No. E.90.II.A.26).

Seminar on Auditing in the USSR, Moscow, 1-2 February 1991. The Centre and DRT-INAUDIT (the principal auditing firm in the USSR) co-sponsored a seminar which was attended by over 200 government officials, practitioners and academicians. The seminar was designed to acquaint Soviet auditors with the audit process as it is practiced in the West and issues surrounding the organization of the accountancy profession. International experts spoke on such topics as the purpose of auditing, the types of audits (financial, compliance and performance audits), the auditing process itself and the establishment of an auditing profession.

IV. Facilitating the establishment and implementation of Free economic zones

USSR:

Informal Brainstorming Meeting on Free Economic Zones, Moscow, 16 June 1989, attended by about a 100 policy-makers, academics, transnational executives, local entrepreneurs, and diplomats from foreign embassies. This was the first public discussion of the key issues in establishing free economic zones in Central and Eastern European countries. Two background documents were prepared, including a semi-official conceptual paper outlining Soviet thinking on free economic zones, made available to the public for the first time at the meeting. A substantial conceptual paper prepared by UNCTC was subsequently published in revised form as *The Role of Free Economic Zones in the USSR and Eastern Europe,* UNCTC Current Study, No. 14 (Series A) (United Nations Publication, Sales No. 90.II.A.5). The papers and discussions helped shape the policy debate on free zones in the USSR.

USSR:

International Seminar on Zones of Joint Entrepreneurship in Centrally Planned Economies, Moscow, 19-22 September 1989. The seminar was intended to familiarize decision-makers at the central and local levels with international practices related to the planning, establishment and operation of special economic zones. Over 300 persons from central and local governments, domestic and foreign firms, embassies and academia from the USSR and elsewhere attended. The background papers prepared for the seminar are compiled in *The Challenge of Free Economic Zones in Central and Eastern Europe* (New York, United Nations, 1990), 444p., $75.00, United Nations publication, Sales No. E.90.II.A.27.

The seminar was assessed by senior representatives of the Soviet central and local governments as a major contribution to the process of setting up such zones in the USSR, and it received high media coverage. At the seminar, the Centre was asked by representatives of the prospective zones in Leningrad, Nakhodka (Far East) and Armenia to form task forces to assist in the planning and establishment of their zones. The proposal was also made that the Centre assist in the creation of an Eastern European Association of Free Economic Zones.

USSR:

Task Force to Evaluate the Possibilities of Establishing and Operating a Free Zone in Nakhodka (Soviet Far East). Set up in September 1989 on the request of the City of Nakhodka, its major objectives include the revision and finalization of a business plan

for the zone; the evaluation of possibilities for international linkages; and the provision of advice on key considerations in planning, establishing and operating the zone. This last task includes feasibility studies, promotion, financing, foreign exchange, incentives, accounting, training and administration.

The first meeting of the Task Force, 29-31 January 1990, was attended by 22 Soviet and international experts. The draft business plan for the zone and ways and means to further the work of the Group were discussed.

USSR: The Committee on International Affairs of the Russian Republic Parliament in the USSR requested the Centre to provide an expert assessment of the draft regulation for a free economic zone in the area of Nakhodka, Primorsky Territory, in the Soviet Union. The document is the first of its kind at this level in that country. The suggestions and comments provided contributed to the finalization of the regulation which will become the basis for a growing body of Soviet law in this area.

USSR: In October 1990, the City Council of Leningrad requested that the Centre organize a seminar on issues arising in the course of establishing and operating free economic zones. Planned to be held in September 1991, the major objective of the seminar will be to create for Leningrad the infrastructure necessary to establish and operate a free economic zone. A Task Force, similar to that for Nakhodka, is being established to assist in the whole range of issues related to the establishment of the zone.

A series of brief workshops on *Free Economic Zones in the Ukraine* will be held during the first half of 1991 at five locations to familiarize the authorities with the issues related to the establishment and operation of FEZs.

The immediate practical usefulness of the programme has generated considerable interest in Central and Eastern Europe. The most recent request from Poland, for instance, covers, among other things, the organization of on-the-job training programmes, assistance to institutions of higher learning; an assessment study on the potential and framework for foreign direct investment in the country; and a review of its foreign investment regulations. In addition, Poland has asked for assistance in establishing free economic zones, in creating a stock market, and in strengthening its Foreign Investment Agency.

Experience in other Socialist countries

The Centre has also rendered considerable technical assistance to a number of socialist developing countries; in most cases, the experience gained there is of immediate relevance to work in Central and Eastern Europe:

China: The Centre drafted implementing regulations for China's joint venture law of 1983 and was one of the principal sources for its 1984 Contract Law. It has also provided China with advisory services on legal and institutional arrangements to promote foreign direct investment and the acquisition of technology. Besides providing training to Chinese officials and managers on the financial and economic evaluation of foreign investment projects, the Centre assisted China in establishing and information system to monitor foreign direct investment. Currently, the Centre is providing advisory assistance on the new contractual Joint Venture law and the drafting of the implementing regulations, and it is organizing an on-the-job training programme for Chinese managers in Western enterprises.

Laos: In 1988, the Centre assisted the Government of Laos in matters pertaining to the country's foreign investment law.

Vietnam: In 1988, the Centre drafted the implementing regulations of Vietnam's foreign investment law. Follow-up assistance was given in 1989 and 1990, including an assessment of the potential for off-shore oil and gas development in collaboration with transnational corporations.

Korea, Democratic People's Republic of Advisory services to promote, negotiate and regulate joint ventures have been initiated in the Democratic People's Republic of Korea, since it promulgated its joint venture law in 1986. The Centre is now the executing agency for a programme to assist the Ministry of Joint Ventures in:

- the formulation and institutionalization of policies, laws and regulations and mechanisms conducive to increased foreign investment, technology and management know-how;
- the formulation of a promotional strategy to attract foreign investment and technology, including a detailed programme of action for its implementation;

- the identification, preparation and promotion of specific foreign investment projects;

- the screening, negotiation and monitoring of foreign investment and technology projects, including the establishment and strengthening of the required institutional and management capacities and skills for this purpose. The main function of the project is to act as an agent, facilitate and promote business contacts and their development leading to the establishment and execution of concrete business deals with investors from western market economies.

Mongolia: In 1990, the Centre assisted Mongolia in evaluating joint venture proposals, particularly in oil and gas projects with transnational corporations.